

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7566

Petition of Town of Stowe Electric Department)
Pursuant to 30 V.S.A. § 108(c) for Approval of)
Refinancing of Vermont Transco, LLC Specific)
Facilities Membership Units)

Order entered: 2/25/2011

ORDER RE: AMENDMENT REQUEST

I. INTRODUCTION

On October 28, 2009, the Vermont Public Service Board ("Board") issued an Order in this Docket approving the request of the Town of Stowe Electric Department ("Stowe" or "the Company") to refinance \$18.7 million in non-amortizing indebtedness ("Member Unit Financing") related to its December 2008 purchase of 1,870,000 Specific Facilities membership units ("LCP Member Units")¹ in Vermont Transco LLC ("Transco"), in compliance with the terms of the Uncontested Settlement Agreement ("Settlement") between participating utilities related to construction of the 115 kV Lamoille County Project ("LCP" or "Project"). Stowe planned to refinance the original Member Unit Financing with debt issued pursuant to private placement using the KeyBanc Capital Markets ("KeyBanc") group in order to obtain a lower interest rate estimated, at the time, to be 5.65%.² The Order provided that:

"Stowe shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing."

1. The Board originally approved Stowe's request to finance the purchase of the LCP Member Units in the amount of \$18.7 million on 10/30/08. *See* Docket No. 7458, Order of 10/30/08.

2. The original Member Unit Financing, as approved by the Board in 2008, consisted of a ten-year non-amortizing variable rate bank loan which included an interest rate hedge (or interest rate swap) in order to fix the interest rate at 6.6%. The interest rate hedge is required under the terms of the Settlement which specifically requires the term of the financing to be a ten-year non-amortizing loan with a fixed rate of interest. *See* Docket No. 7566, Order of 10/28/09 at 3.

On February 18, 2011, Stowe filed a letter with the Board requesting that the Board amend the original Order to allow for refinancing of the Member Unit Financing with an expected interest rate range of between 5.7% and 5.95%.³

On February 21, 2011, the Department of Public Service ("DPS") submitted a letter to the Board stating that it believes that the amendment request is consistent with the general good of the state, and recommending approval of the request on the basis that it will result in less costs for Stowe ratepayers.

On February 22, 2011, the Clerk of the Board issued a memorandum informing Stowe that additional information concerning the terms of the proposed refinancing was needed in order to complete the review of the amendment request.

On February 23, 2011, Stowe filed the additional information.

II. STOWE'S POSITION

In its filings, Stowe asserts that in 2009, by the time the approvals of the Member Unit Financing were obtained from the Board and the Stowe voters, interest rates had risen to the point that KeyBanc was no longer able to provide a fixed rate loan at a rate significantly below 6.6%. In addition, Stowe states that because interest rates began to rise at that time, the value of its interest rate hedge also started to increase from approximately \$1.0 million to \$1.3 million as of 12/31/09. As a result, Stowe argues that these two factors made the refinancing of the Member Units uneconomic and the transaction was never closed. Stowe goes on to state that as time passed interest rates began to reverse course and declined to the point that the value of the interest rate hedge turned negative at \$175,000 as of 6/30/10, and eventually reached negative \$900,000 as of 9/30/10. Since it was Stowe's intent to use the proceeds from the sale of the interest rate hedge to cover the closing costs of the proposed refinancing, Stowe contends that it was unable to take advantage of the lower interest rate environment occurring in 2010 since the hedge had no positive value and it would have been costly for Stowe to terminate the hedge. Now that the value of the hedge has turned positive again (approximately \$530,000), due to the

3. In its February 18 filing, Stowe requested expedited treatment of its proposal by the Board but did not specify a date or time frame within which it would seek a decision.

projected upward trend in rates combined with some continued volatility in the credit market, Stowe argues that it is in an advantageous, albeit temporary, position to sell the hedge and obtain fixed-rate financing at a rate that is below the 6.6% that Stowe is currently paying. KeyBanc is offering Stowe a fixed rate in the range of 5.7% to 5.95% under the same terms and conditions as the previous Member Unit Financing approved in this Docket; however, because of changing conditions in the current interest rate environment, Stowe believes that it has only a brief window of time within which to act.⁴ Stowe asserts that refinancing at the lower rate will result in a greater contribution to the LCP since the remainder of the dividends received from the LCP Member Units after debt service is contributed back to the Project by Stowe.

As noted above, the DPS supports Stowe's request and recommends Board approval.

III. DISCUSSION AND CONCLUSION

Stowe's amendment request does not differ significantly from its previous refinancing proposal approved by the Board in this Docket on October 28, 2009. Termination of the interest rate hedge and conversion of the original Member Unit Financing from variable rate debt to fixed rate debt provides tangible financial benefits to Stowe and ratepayers by reducing Stowe's interest expense and, in turn, providing the LCP with additional residual funds furnished by the remainder of the dividend income from the LCP Member Units. Based on our own observations of the current interest rate environment, a market which has been characterized by upward and downward movements in rates, we agree with Stowe that now is an opportune time to convert the Member Unit Financing to a fixed rate and terminate the interest rate hedge in order to obtain a positive return. We also conclude that by eliminating the hedge and obtaining fixed rate financing, Stowe will experience greater certainty in its financial planning since hedges of this type require an affinity for correctly "timing the market" which even experienced investment professionals have difficulty achieving on a consistent basis.

Therefore, we approve Stowe's amendment request to refinance the Member Unit Financing at a fixed rate of interest in an expected interest rate range of between 5.7% and

4. For example, Stowe points out that as of 2/8/11, the value of the interest rate hedge was \$748,000. However, as of 2/18/11, the value had dropped to \$530,000 because of a drop in Treasury yields.

5.95%, and to terminate the interest rate hedge. All other conditions and requirements as set out in our Order of October 28, 2009, not amended herein, shall remain unchanged and in full effect.

SO ORDERED.

Dated at Montpelier, Vermont, this 25th day of February, 2011.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: February 25, 2011

ATTEST: s/ Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.